

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 0840	Department State Controller's Office	Priority No.
Budget Request Name 0840-005-BCP-BR-2016-GB		Program 0500300-PERSONNEL PAYROLL SERVICES 9900100-INFORMATION SYSTEMS	Subprogram

Budget Request Description
ACA and PEPRRA Legislation Workload

Budget Request Summary

The State Controller's Office (SCO) requests \$961,000 (\$548,000 General Fund [GF]; \$413,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17 and \$927,000 (\$528,000 GF; \$399,000 CSCRF) in 2017-18 for 8.4 positions (3.2 continuing and 5.2 new) to support the continuing impact of major changes to the SCO's Uniform State Payroll System (USPS), the Affordable Care Act Database System (ACAS), and associated business processes as a result of mandated State and Federal legislation. This workload is crucial to the State of California to ensure ACA compliance and minimize the risk of penalties in excess of \$350-\$450 million dollars annually.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If yes, departmental Chief Information Officer must sign.	Department CIO <i>[Signature]</i> Todd Boltjes, Chief Information Systems Division	Date 12/4/15
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:		

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By <i>[Signature]</i> Debra Spellman, Acting Chief Personnel/Payroll Services Div.	Date 12/10/15	Reviewed By <i>[Signature]</i> Larry Norris, Chief Admin and Disb. Division	Date 12/4/15
Department Director <i>[Signature]</i> Tom Yowell Chief Administrative Officer	Date 12-4-15	Agency Secretary <i>[Signature]</i> George Loras Chief Operating Officer	Date 12/4/15

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA <i>[Signature]</i>	Date submitted to the Legislature 1/7/16
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BCP Fiscal Detail Sheet

BCP Title: ACA and PEPR Legislation Workload

DP Name: 0840-005-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	8.4	8.4	0.0	0.0	0.0
Total Positions	0.0	8.4	8.4	0.0	0.0	0.0
Salaries and Wages						
Earnings - Permanent	0	574	574	0	0	0
Total Salaries and Wages	\$0	\$574	\$574	\$0	\$0	\$0
Total Staff Benefits	0	295	295	0	0	0
Total Personal Services	\$0	\$869	\$869	\$0	\$0	\$0
Operating Expenses and Equipment						
5301 - General Expense	0	33	17	0	0	0
5304 - Communications	0	8	8	0	0	0
5322 - Training	0	26	8	0	0	0
5346 - Information Technology	0	25	25	0	0	0
Total Operating Expenses and Equipment	\$0	\$92	\$58	\$0	\$0	\$0
Total Budget Request	\$0	\$961	\$927	\$0	\$0	\$0

Fund Summary

Fund Source - State Operations						
0001 - General Fund	0	548	528	0	0	0
9740 - Central Service Cost Recovery Fund	0	413	399	0	0	0
Total State Operations Expenditures	\$0	\$961	\$927	\$0	\$0	\$0
Total All Funds	\$0	\$961	\$927	\$0	\$0	\$0

Program Summary

Program Funding						
0500300 - Personnel/Payroll Services	0	961	927	0	0	0
9900100 - Administration	0	194	168	0	0	0
9900200 - Administration - Distributed	0	-194	-168	0	0	0
Total All Programs	\$0	\$961	\$927	\$0	\$0	\$0

Personal Services Details

Positions		Salary Information			<u>CY</u>	<u>BY</u>	<u>BY+1</u>	<u>BY+2</u>	<u>BY+3</u>	<u>BY+4</u>
		Min	Mid	Max						
1337	- Sr Info Sys Analyst (Spec) (Eff. 07-01-2016)				0.0	1.0	1.0	0.0	0.0	0.0
1583	- Sr Programmer Analyst (Spec) (Eff. 07-01-2016)				0.0	1.0	1.0	0.0	0.0	0.0
5393	- Assoc Govtl Program Analyst (Eff. 07-01-2016)				0.0	6.4	6.4	0.0	0.0	0.0
Total Positions					0.0	8.4	8.4	0.0	0.0	0.0
Salaries and Wages		<u>CY</u>	<u>BY</u>	<u>BY+1</u>	<u>BY+2</u>	<u>BY+3</u>	<u>BY+4</u>			
1337	- Sr Info Sys Analyst (Spec) (Eff. 07-01-2016)	0	92	92	0	0	0			
1583	- Sr Programmer Analyst (Spec) (Eff. 07-01-2016)	0	81	81	0	0	0			
5393	- Assoc Govtl Program Analyst (Eff. 07-01-2016)	0	401	401	0	0	0			
Total Salaries and Wages		\$0	\$574	\$574	\$0	\$0	\$0			
Staff Benefits										
5150900	- Staff Benefits - Other	0	295	295	0	0	0			
Total Staff Benefits		\$0	\$295	\$295	\$0	\$0	\$0			
Total Personal Services		\$0	\$869	\$869	\$0	\$0	\$0			

Analysis of Problem

A. Budget Request Summary

The State Controller's Office (SCO) requests \$961,000 (\$548,000 General Fund [GF]; \$413,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17 and \$927,000 (\$528,000 GF; \$399,000 CSCRF) in 2017-18 for 8.4 positions (3.2 continuing and 5.2 new) to support the continuing impact of major changes to the SCO's Uniform State Payroll System (USPS), the Affordable Care Act Database System (ACAS), and associated business processes as a result of mandated State and Federal legislation. This workload is crucial to the State of California to ensure ACA compliance and minimize the risk of penalties in excess of \$350-\$450 million dollars annually.

B. Background/History

Since 2010, two complex pieces of legislation have been enacted that continue to have a significant impact on how the State of California and the SCO, in particular, conduct business. These are:

- The California Public Employees' Pension Reform Act
- The Federal Patient Protection and Affordable Care Act

The California Public Employees' Pension Reform Act (PEPRA)

On September 12, 2012, the State of California enacted sweeping pension reform legislation known as PEPRA. Although PEPRA went into effect as of January 1, 2013, certain provisions were not effective until the expiration and negotiation of the collective bargaining agreements occurring between the 21 state civil service bargaining units and the California Department of Human Resources (CalHR) in June 2013. On July 1, 2013, CalHR issued a formal request to the SCO to implement the PEPRA requirements for employee retirement contribution rate changes to begin July 1, 2013.

Due to the multifaceted nature of the PEPRA legislation, the California Public Employees Retirement System (CalPERS) has not been able to determine or publish comprehensive guidelines on the full impact of PEPRA to date and, as a result, analyzes and interprets PEPRA's impact on Public Employees' Retirement Law (PERL) on a flow basis through the issuance of circular letters. As CalPERS determines the impacts of PEPRA on PERL, CalHR and the SCO must also conduct their own analysis to determine what impact these changes have on the programs within their scope of responsibility. Because the numerous impacts of PEPRA are too broad to include in this BCP, the SCO has identified the key aspects of PEPRA which have had the most significant impact on the SCO's business practices and the USPS systems during 2014-15.

PEPRA creates a need for two categories of retirement members: New and Classic. The USPS is a complex legacy system that was never designed to distinguish two different types of retirement members (Classic vs. New) with distinctly different characteristics, as required by the PEPRA legislation. Therefore, implementing the system changes to support PEPRA are extremely complex and time-consuming, requiring SCO staff at journey levels to analyze and identify impacts to current processes and programs and coordinate those changes to the USPS and other downstream programs/processes. In some cases, interim manual or semi-automated business processes may need to be implemented to meet legal requirements until fully automated solutions can be identified and applied. The SCO recognizes that continuous monitoring of the technology systems and frequent dissemination and communication will be required to ensure ongoing system accuracy and minimal impact to payroll and employment history operations.

In 2014-15, SCO received 1.5 two-year limited-term positions to support PEPRA workload. Along with the 1.5 positions, PPSD redirected 4.0 positions in 2014-15 and made the following significant business process and/or system changes to the USPS as the result of PEPRA:

- Created 10 new retirement account codes to identify New PEPRA members for California State University (CSU) and the Judicial Council. This was necessary to distinguish New PEPRA members from Classic members. Each new retirement account code took approximately 4 weeks of work time to analyze, develop requirements, design, build, test and implement.
- Eliminated the Employer Paid Monthly Contribution for CSU Bargaining Unit (BU) 8 PEPRA members.

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- Implemented a pensionable compensation cap for PEPRA employees and a manual process to refund/adjust retirement contributions based on a look back method for PEPRA employees who reach the pensionable compensation cap.
- Developed processes to track reciprocity for PEPRA employees and to identify PEPRA members for the California Teachers Retirement System.
- Placed prohibitions on replacement benefit plans for New PEPRA members.
- End dated 33 retirement codes to prevent new hires from being placed in the Legislators' Retirement System
- Created new processes for determining reportable compensation

Affordable Care Act (ACA)

The healthcare law known formally as the Patient Protection and Affordable Care Act was signed into law in March 2010 and promptly put to the test in the courts by 26 of the 50 states. Several sections of the law were amended in subsequent years (Section 4980H was amended by §1003 of the Health Care and Education Reconciliation Act of 2010 (HCERA) enacted March 30, 2010, Pub. L. No. 111-152) and was further amended by §1858(b)(4) of the Department of Defense and Full-Year Continuing Appropriations Act 2011 (enacted April 15, 2011, Pub. L. No. 112-10). Section 6056 was amended by §10106(g) and §10108(j) of the ACA and was further amended by §1858(b)(5) of the Department of Defense and Full-Year Continuing Appropriations Act, 2011.

In June 2012, the Supreme Court upheld the law and made the reporting requirements optional for all employers in the 2012 tax year with portions of the mandated requirements starting in the 2013 tax year. On July 2, 2013, the Federal Government issued a notice acknowledging the complexity of the legislation and their delay in publishing rules under sections 6055 and 6056 of the Internal Revenue Code, as amended by the ACA, to implement employer and insurer reporting requirements for all medium and large employers, such as the State of California. Such rules are necessary to determine what tax penalties large employers will be subject to under the Internal Revenue Code if they do not offer and document affordable health coverage to their employees.

Due to the complexity of ACA implementation, the IRS issued Notice 2013-045 providing transition relief to large employers (those with 50 or more employees) for Calendar Year 2014. This delayed the implementation of the mandated Employer Shared Responsibility Provisions until January 1, 2015 and the mandated reporting requirements until January 2016. In preparation for the mandated Employer Shared Responsibility Provisions, the IRS issued the following final regulations in Calendar Year 2014:

- Shared Responsibility for Employers Regarding Health Coverage – February 2014
- Information Reporting by Applicable Large Employers on Health Insurance Coverage Offered Under Employer Sponsored Plans – March 2014

In June 2015, the IRS issued an "early look" draft for electronically filing the mandated reports required of Applicable Large Employers (Forms 1094C and 1095C). In June 2015, the United States Supreme Court upheld key provisions of the ACA in relation to the taxpayer subsidy. This decision allowed implementation of the ACA to proceed. In July 2015, the Trade Preferences Extension Act of 2015 was signed into law. This legislation doubled many of the financial penalties (particularly in the area of reporting) contained within the ACA legislation.

Beginning January 1, 2015, the following aspects of the ACA had to be implemented by the State of California as an applicable large employer:

- Offering health benefits to every full-time employee (those working 30 or more hours per week) and their dependent children.
 - If it can be foreseen (i.e. it is our intention at hire) that an employee will work 30 hours or more per week, then health benefits must be offered at the time of hire.
 - If typical work hours are irregular and cannot be foreseen at the time of hire, then a look-back method must be used to determine eligibility for health benefits. The look-back method requires

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a department to "look back" at the "hours paid" for a designated period of time (typically 6 or 12 months) to determine whether the employee worked an average of 30 or more hours per week during the "look back" period to determine benefits eligibility. There is a limited ability to apply different look-back standards such as:

- Collectively-bargained staff may be treated differently from non-represented staff
- Each bargaining unit may be treated differently
- Salaried employees may be treated differently from hourly employees
- Employees working in different states may be treated differently
- Health benefits offered must be adequate (cover 60% of costs).
- Health benefits must be affordable (employee cost for single coverage under the cheapest plan cannot exceed 9.5% of income.) For 2015, the Health Benefit rates were in compliance with the affordability requirements. However, it is not possible to predict future health plan costs. If Health Plan costs increase, there is the potential that either the State Costs of funding these plans would need to increase or the State would face penalties. The State cannot supersede the Federal ACA requirements through the collective bargaining process to eliminate or mitigate the impact of the ACA. It will be up to CalHR and CalPERS to work together to manage Health Plan costs in future years.
- The ACA defines a range of look back parameters for the measurement, the administrative or processing period which is optional and the stability or eligibility period.
- There are significant penalties for non-compliance if an employer either:
 - Fails to offer coverage
 - Offers inadequate or unaffordable coverage

CalHR has estimated that the statewide impact for the State of California, as an employer, of incurring penalties for failure to offer coverage as required by the ACA could be on the order of \$350-\$450 million annually.

- There are significant reporting requirements which must be met as part of the ACA. The reporting requirements are scheduled to be implemented as of January 1, 2016. These reporting requirements will be used by the Federal Government as a means of ensuring that employers comply with the ACA requirements for offering health coverage. SCO will play the primary role in generating and providing reports for the State of California, as an employer. Failure to report in a timely and accurate manner may result in additional financial penalties to the State of California.

To implement the Employer Shared Responsibility Provisions of the ACA and provide the required reporting, the SCO determined that the State of California needed to collect data that was not currently available in the USPS or other State automated systems. Therefore, the SCO initiated efforts to collect the required data beginning January 1, 2015. In 2014-15, the SCO received 1.5 two-year limited-term positions to support these ACA workloads. Along with the 1.5 positions, PPSD redirected 11.6 positions in 2014-15 and made the following as the result of ACA:

- Designed and built a database to capture ACA health status code information necessary for IRS reporting.
- Developed an automated daily update process to keep the ACAS in sync with the USPS.
- Created a change management/communication plan to share ACA information with impacted stakeholders, and delivered communication materials at various meetings and forums.
- Created three online training modules (two for civil service and one for CSU). – *This was completed by the Statewide Training Unit (STU).*
- Drafted and released a user guide, job aids, work sheets and check lists for ACAS system users.
- Trained 1,661 statewide ACAS users using online learning in November/December 2014.
- Successfully released the ACAS database to production in January 2015. The ACAS database is currently being used by 1,661 users statewide in the Human Resources Offices. The ACAS is updated through a combination of automated and manual updates. On average it processes an average of 43,075 automated and manual transactions per month.
- Designed and built a process to accept monthly update files from entities that do not have data in the USPS. These are the 53 District Agricultural Associations (DAAs) and Cal Expo. The number of

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employees at the DAAs and Cal Expo vary by month from a low of approximately 592 to a high of approximately 8,609 depending on whether or not it is peak season.

- Designed, built and released the first group of compliance reports for departments and CalHR to ensure the accuracy and integrity of the ACA data.

To implement the additional PEPPRA and ACA changes, the SCO is requesting two-year limited-term funding to support 8.4 resources (3.2 continuing from the 2014-15 BCP and 5.2 that can no longer be absorbed) in 2016-17 and 2017-18.

Resource History (Dollars in thousands)

Program Budget	2010-11	2011-12	2012-13	2013-14	2014-15 ¹
Authorized Expenditures	-	-	-	-	\$328
Actual Expenditures	-	-	-	-	\$2,333
Revenues	-	-	-	-	\$0
Authorized Positions	-	-	-	-	3.2
Filled Positions	-	-	-	-	18.6
Vacancies	-	-	-	-	0.0

¹ To meet legally mandated requirements and timelines, the SCO has had to expend 18.6 resources in 2014-15, which far exceeded the authorized resources. Additionally, the SCO was approved for 1.0 Staff Information Systems Analyst in the 2014-15 BCP; however, due to the need for advanced technical knowledge, the SCO reclassified the position to a Sr. Information Systems Analyst.

Workload History

Workload Measure	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
N/A	-	-	-	-	-	-

C. State Level Considerations

The SCO is responsible for issuing pay to employees of the state civil service, CSU and the Judicial Council utilizing the USPS and maintaining their employment history. There are currently over 150 departments and 24 campuses in the State of California. The state workforce is comprised of approximately 284,000 employees, represented by 21 state civil service bargaining units and 13 CSU bargaining units. Employees are located throughout California and in other states, and range from elected officials, managers and supervisors, and higher education faculty, to rank and file workers in various occupations.

The USPS is a decentralized system. Civil Service Departments and CSU Human Resources staff are responsible for entering data into the USPS to accurately generate personnel and payroll records. As a control agency, the SCO has a statewide responsibility to manage the personnel resources of the State, account for salary and wage expenditures, and provide data to the retirement systems necessary for calculation of employee retirement benefits in a fiscally responsible manner. Both PEPPRA and the ACA significantly impact how the SCO carries out this core responsibility and require the SCO to make major changes to the USPS, the ACAS and/or the related business processes. Additionally, the SCO has the core responsibility, as the mandated reporter for ACA reporting for the State of California, to generate annual reports to the IRS and issue annual employee statements and revisions/updates to mandated reports as necessary.

As noted above, there is substantial new workload for the SCO to implement and maintain the changes required by both PEPPRA and the ACA. Both pieces of legislation require the SCO to not only make one time business process and system changes, but to continue to either make changes on an annual basis in the case of PEPPRA to comply with Federal Law and Bargaining Unit agreements, or to prepare extensive annual reporting and provide support to a new ACA database. This workload is crucial to the State of California to ensure ACA compliance and minimize the risk of penalties in excess of \$350-\$450 million dollars annually. In addition to the reporting requirements required by the Federal Government, the SCO will need to continue its work with CalHR and the Chancellor's Office to develop additional reporting to allow for monitoring of over 150 State Departments, 24 CSU campuses and the 53 DAAs to identify any deficiencies in the State's Health

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Benefits Offering/Tracking practices so that these deficiencies can be preemptively addressed and mitigated before the State finds itself subject to penalties.

D. Justification

Both PEPRA and the ACA are extremely complex legislation with significant multi-year impacts on how the State of California conducts business. In fact, both pieces of legislation are so complex that neither CalPERS for PEPRA, nor the IRS for the ACA, have fully determined all of the impacts of the respective legislation and issued final direction. Rather, directives continue to be issued on an iterative or flow basis. In many cases, different aspects of the legislation are phased in over time, leading to multi-year impacts to SCO's workload.

The workload generated by PEPRA will continue in 2015-16 and beyond. The SCO anticipates making the following significant business process and/or system changes to the USPS beginning in 2015-16 and continuing into future years. These changes are either new as the result of PEPRA or are now more complex due to PEPRA, and not related to new bargaining unit negotiations:

- Continuing to analyze and make coding changes to reflect decisions made regarding pensionable compensation. There are currently 99 special pays which are pending a decision as to their pensionable status.
- Creating new retirement account codes to identify New PEPRA members for Civil Service Employees and moving PEPRA employees to new account codes once they are created. Due to design constraints within the USPS, this will require additional analysis which was not required for CSU and the Judicial Council.
- Analyzing, designing, building, testing and implementing a process to automate the identification of employees as New PEPRA or Classic members. This will ultimately impact many processes including reporting and closing of the business month.
- Analyzing, designing, building, testing and implementing a process to automate contribution limits to cap the employer and employee share of retirement contributions. This process is more complex because of the distinction between New PEPRA and Classic Retirement members. It is also more complex because CalSTRS calculations are processed by Fiscal Year and the remainder of the state is processed on a calendar year basis.

The greater than previously anticipated workload generated by the ACA will continue in 2015-16 and beyond. SCO now has both a support and maintenance responsibility for the ACAS as well as a project analysis, development and implementation responsibility related to new ACA provisions and reporting requirements. Therefore, the SCO is required to expend increased resources to support both of these functions simultaneously. Currently, the SCO has the following broad responsibilities in relation to the ACA:

- Maintaining the ACAS and providing customer support to the 1,661 statewide ACAS users. Between January and June 2015, the ACAS customer support staff has responded to 590 support phone calls and 131 support emails.
- Fully implementing the ACA compliance program in conjunction with CalHR (implementation began in 2014-15 and will be completed in 2015-16). This program is essential to ensuring that the State of California remains within the "Safe Harbor" when filing annual reports. If the reports do not reflect sufficient compliance, significant financial penalties can be assessed.
- Implementing the monthly process to receive ACA data from the 53 entities (DAAs and Cal Expo) that are not in the USPS. This process is a labor intensive, semi-automated process that requires the SCO to receive and process 53 files, produce error reports, resolve errors and receive corrected files on a monthly basis.
- Assisting CalHR with calculating and monitoring the monthly and annual ACA "Safe Harbor" by developing monthly and annual reports to monitor and mitigate potential financial penalties.
- Developing and implementing the annual IRS reports and employee statements as well as the monthly "correction" reports to the IRS to reflect changes and/or retroactive transactions processed by departments/campuses. Due to IRS limitations, this is a labor intensive process that will require the SCO to divide the annual report into at least 25 files to accommodate IRS size limitations and convert each file to XML before submitting. Processing and storing multiple files will also make error resolution more complex.

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- In conjunction with CalHR and CalPERS, begin analysis on the impacts of the ACA provisions regarding the "Cadillac Tax" to the State and its health plans to identify changes to the USPS, the ACAS, business processes and reports. The Cadillac Tax is effective in 2018.

To achieve these responsibilities, the SCO anticipates making several significant business process and/or system changes to the ACAS, the USPS and/or related business processes as the result of ACA in 2015-16 and in future years (please see Attachment I).

The list in Attachment I is not comprehensive because CalPERS continues to interpret the impacts of PEPRA and issue Circular Letters with new requirements on an iterative basis. The IRS also continues to interpret and issue guidance and final rules and regulations regarding the ACA. When new requirements are issued, it generates workload in several PPSD Units and the Information Systems Division (ISD) within SCO. In some cases, the SCO must also coordinate with our business partners at CalHR, CalPERS and the Department of Finance (DOF). The impacted units must complete work in each of the following key areas:

Business Process Development/Review:

- Determining the business specifications and data requirements by documenting the purpose, data sources, data selection criteria, data manipulation rules and requirements.
- Developing and/or reviewing existing business procedures to support the modifications/ changes in the data reporting process. This includes, but is not limited to, identifying available criteria, and methods of extracting data to achieve report output.
- Performing analysis to identify gaps in meeting reporting criteria and providing recommendations on effective solutions to satisfy informational needs, and legislative requirements.
- Determining the business specifications and technical data requirements of reports by documenting each of the report's purpose, data sources, data selection criteria, data manipulation rules and report format requirements. Collaborating to finalize the requirements for any newly identified reports, developing test plans/conditions/cases to perform the testing and validate the test results. Reviewing requests to provide time and cost estimates for management, customers, and analysts on various projects. (Writing requirements and Validating output files)

Business Requirements for System Modifications and Updates:

- Determining business requirements for system modifications and updates for addition of reportable fields.
- Identifying data element requirements, anticipated program modifications and monitoring/coordinating migration tasks.

System Support/Testing

- Developing test plans and conditions; selecting cases to perform the testing and validating the results.
- Performing table updates and maintenance.
- Reporting development/implementation
- Developing advanced informational reports by developing and disseminating into common libraries and ad hoc report tools and techniques to satisfy new data report requests as needed.

Customer Service Support

- Preparing for an anticipated increase in end user support needs to ensure reporting compliance in current decentralized record keeping processes. For example, this could take the form of the SCO creating a variety of ad hoc reports to assist departments and/or CalHR with tracking compliance with ACA requirements to prevent the State of California from experiencing catastrophic penalties.

Training

- Preparing for end-user training by updating training material, assembling and distributing training materials. – *To be completed by the STU.*

Analysis of Problem

Project Analysis and Support

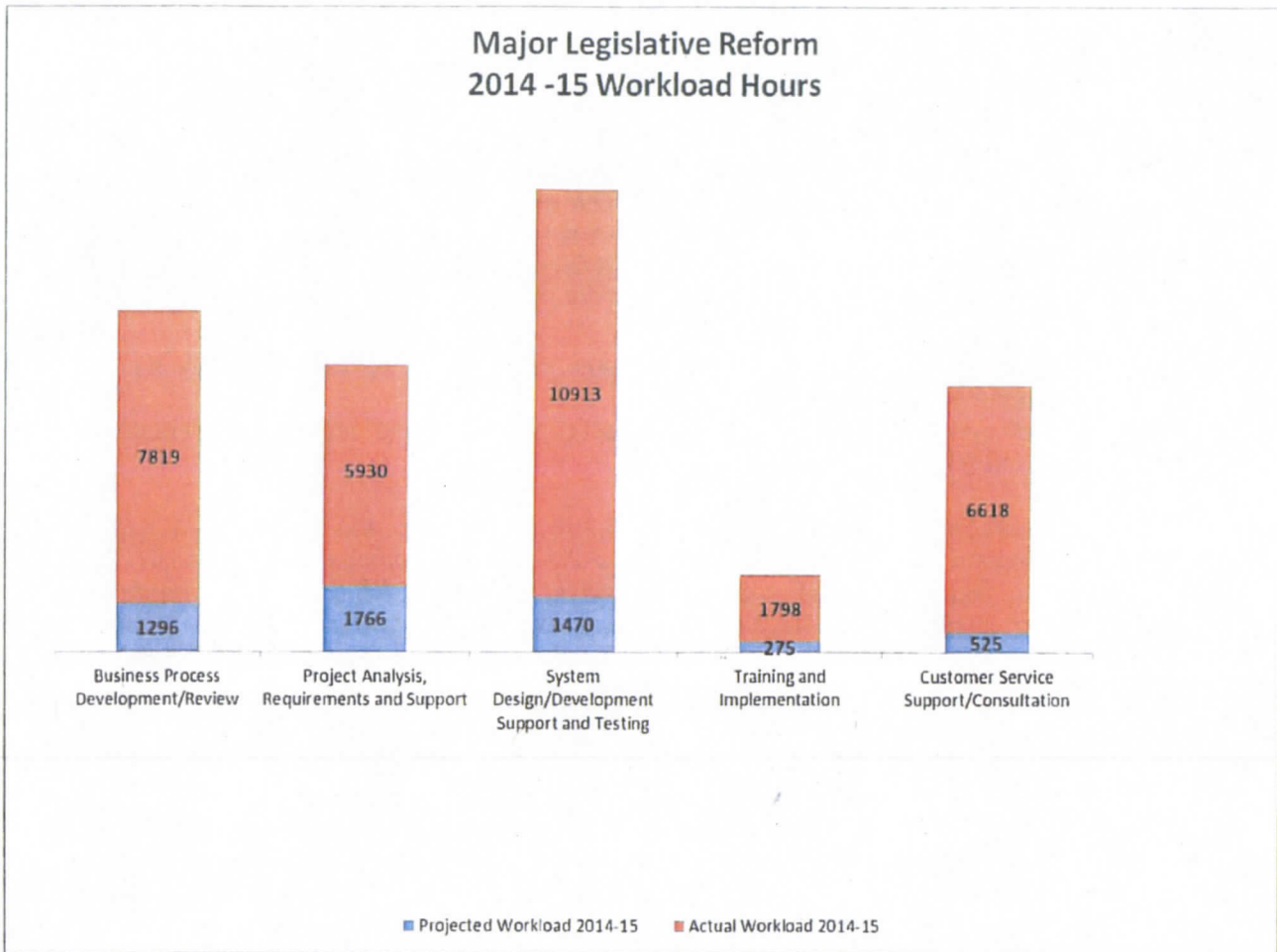
- Representing the SCO on focus groups, task forces, meetings, etc.
- Participating in implementation of information policies, practices, standards and requirements.
- Collaborating with subject matter experts to finalize requirements.
- Revising existing business procedures to support modifications/changes in the data reporting process, such as identifying available report writing tools, methods of extracting data.
- Working directly with subject matter experts and business partners to gather information to identify needed or essential data elements to comply with reporting requirements.
- Serving as a Project Liaison at meetings, as a contact for control agencies, following up on providing data requests.
- Preparing end user communication (i.e. personnel letters, pay letters) regarding new policies, practices, standards and requirements.
- Conducting research on applicable laws, rules, policies, procedures, and bargaining unit contracts and their impact on the USPS and/or ACAS.

As the SCO implements additional complex components of the ACA legislation, the SCO's ACAS support and compliance activities continue to grow. For example, in May 2015, SCO, in conjunction with CalHR, began implementing the ACAS compliance program by designing and releasing 5 ACAS compliance reports to State departments. By the end of 2015, SCO will have designed and released 16 ACAS compliance reports. These reports will be released to State departments and to the California State University system on a quarterly basis. In addition, in June 2015, the SCO designed and released the first quarterly compliance report to CalHR. Ensuring compliance requires ongoing resources. However, maintaining compliance is critical to ensure that the State of California does not experience substantial financial penalties as a result of ACA. As an example of the criticality of compliance as well as the volatility of the ACA legislation, during July 2015, the Trade Preferences Extension Act of 2015 was signed in to law. This legislation doubled many of the financial penalties (particularly in the area of reporting) contained within the ACA legislation.

The SCO will also have an increased role in system maintenance, customer support and reporting. Once the SCO provides the initial Employee Statements in January 2016 and the initial Annual Report to the IRS in March 2016, the SCO must submit any changes to these statements and this report within 30 days of the change. Given that there is a significant volume of retroactive personnel and payroll transactions processed in State Service it is anticipated that the SCO will be submitting changes to employee statements and the IRS annual report on a monthly basis.

To date, the SCO has received 3.2 two-year limited-term positions for 2014-15 and 2015-16 to address the PEPRA and ACA workload (0.2 is the Admin component). However, to meet legally mandated requirements and timelines, the SCO had to expend 18.6 resources in 2014-15, which far exceeded the resources received. The chart below indicates the resources expended by workload category for 2014-15 compared to the resources projected to be expended in the 2014-15 BCP. It should be noted that the workload categories have been expanded since 2014-15 to assist with workload tracking. Therefore, they do not align exactly with the prior BCP.

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SCO reassigned staff to the PEPRA and ACA workloads to avoid significant cost and risk to the state due to potential financial penalties if the State of California was unable to meet the ACA reporting requirements (estimated at \$350 - \$450 million annually) and to avoid negative consequences to employees from over withholding or under withholding of retirement contributions if PEPRA changes were not implemented on a timely basis. The SCO anticipates that the greater than previously anticipated workload in 2015-16 and beyond will continue at a similar rate because the SCO must now support the ACAS, support the ACA compliance program, and analyze, design, develop, test, implement, and train on new ACA and PEPRA requirements. Although the SCO reassigned staff to work on the ACA and PEPRA workloads during 2014-15, this situation cannot continue. Reassignment of staff has resulted in significant backlogs in other mandated workloads that impact employee payroll and benefits and is not sustainable. While SCO utilized 18.6 PYs in 2014-15, the SCO is only requesting 8.0 PYs in 2016-17 and 2017-18 since the initial development and implementation phase of the ACAS has been completed. Please see Attachment II for details on the workload tasks.

When SCO made its original request for ACA and PEPRA resources for 2014-15, both the ACA and PEPRA workloads were new. SCO determined its resource needs by reviewing other complex legislation and the resources that it had historically required to make similar changes to SCO systems and business processes. Now that SCO has actual experience with the impacts of the ACA and PEPRA, it has become clear that the SCO is extremely deficient in the resources required to address the mandated ACA and PEPRA workloads in a timely manner.

E. Outcomes and Accountability

The desired outcome is that SCO will receive sufficient staff and funding to support the ACAS, and implement all required changes to the USPS and/or ACAS and associated business processes to comply with the

Analysis of Problem

mandated requirements of PEPRA and the ACA within the legal timeframes. The SCO will be required to produce standard and adhoc reports to ensure ACA compliance by the State of California to avoid penalties under the ACA.

Failure to receive sufficient funding may result in the SCO being unable to ensure that the SCO has implemented PEPRA and the ACA on a sufficient and timely basis to comply with Federal Law and Bargaining Unit agreements or to prepare extensive annual reporting. As previously explained, this is crucial to the State of California's employees and retirees who depend on the State of California, as an employer, for accurate compensation and benefits. It is also crucial to the taxpayers of the State of California to prevent potential penalties in excess of \$350-\$450 million dollars annually for failure to meet ACA requirements.

Projected Outcomes

Workload Measure	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
N/A	-	-	-	-	-	-

F. Analysis of All Feasible Alternatives

Alternative 1: Provide the SCO with \$961,000 (\$548,000 General Fund [GF]; \$413,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17 and \$927,000 (\$528,000 GF; \$399,000 CSCRF) in 2017-18 for 8.4 positions (3.2 continuing and 5.2 new) to support the continuing impact of major changes to the SCO's Uniform State Payroll System (USPS), the Affordable Care Act Database System (ACAS), and associated business processes as a result of mandated State and Federal legislation.

Pros:

- The SCO will be able to continue to implement the provisions and reporting requirements of PEPRA and the ACA.
- Helps prevent the State of California from incurring financial penalties in excess of \$350-\$450 million dollars annually from non-compliance with the ACA reporting requirements.
- The SCO will be able to provide customer support to the users of the ACAS.
- May avoid overpayments and the resulting accounts receivable for employees due to failure to implement PEPRA on a timely basis.

Cons:

- Requires additional staffing and funding, however, allows the SCO to define requirements and reevaluate ongoing workload.
- May create backlog in other workload areas due to staff redirection in order to ensure full compliance of the requirements within mandated timeframes.

Alternative 2: Provide the SCO with 6.8 positions and \$809,000 (\$461,000 General Fund [GF]; \$348,000 Central Service Cost Recovery Fund [CSCRF]) in 2015-16 and 16.8 permanent positions and \$1,859,000 (\$1,060,000 GF; \$799,000 CSCRF) in 2016-17 and \$1,831,000 (\$1,044,000 GF; \$787,000 CSCRF) in 2017-18 and ongoing to support the continuing impact of major changes to the SCO's Uniform State Payroll System (USPS), the Affordable Care Act Database System (ACAS), and associated business processes as a result of mandated State and Federal legislation. This request includes a current year component.

Pros:

- Ensures that the SCO will be able to continue to implement the provisions and reporting requirements of PEPRA and the ACA within the mandated timeframes.
- Prevents the State of California from incurring financial penalties in excess of \$350-\$450 million dollars annually from non-compliance with the ACA reporting requirements.
- Guarantees the SCO will be able to provide adequate customer support to the users of the ACAS.
- Avoids overpayments and the resulting accounts receivable for employees due to failure to implement PEPRA on a timely basis.

Cons:

- Requires additional staffing and funding without having clearly defined ongoing workload.

Analysis of Problem

- Necessitates a deficiency request in the CY to allow the SCO to begin to immediately address the complex ACA and PEPRA reporting requirements.

Alternative 3: Do Nothing

Pros:

- No additional staffing or funding is required.

Cons:

- Will cause the SCO to miss mandated timeframes for implementing the provisions and reporting requirements of PEPRA and the ACA.
- Leaves the State of California vulnerable to incurring financial penalties from delay in implementing the ACA Reporting Requirements.
- Will allow for overpayments and the resulting accounts receivable for employees due to delays in implementing PEPRA.
- Result in retroactivity charges due to delay in implementing PEPRA.

G. Implementation Plan

TIME FRAME	Outcome
July 2016 – June 2018	Analyze, design, develop, test, implement, train and report for workload related to PEPRA and the ACA. Provide support for ACAS.

For additional timelines and activities, please see Attachment I.

H. Supplemental Information

In addition to the SCO standard OE&E complement, funding for General Expense and Training is included within this request.

General Expense - \$16,000 is requested for desktop PCs, monitors, standard software/licenses and a modular workstation for one position.

Training - \$18,000 is requested for specialized IT training classes.

I. Recommendation

Approve Alternative 1 and provide the SCO with \$961,000 (\$548,000 General Fund [GF]; \$413,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17 and \$927,000 (\$528,000 GF; \$399,000 CSCRF) in 2017-18 for 8.4 positions (3.2 continuing and 5.2 new) to support the continuing impact of major changes to the SCO's Uniform State Payroll System (USPS), the Affordable Care Act Database System (ACAS), and associated business processes as a result of mandated State and Federal legislation. This workload is crucial to the State of California to ensure ACA compliance and minimize the risk of penalties in excess of \$350-\$450 million dollars annually.

Workload	One-Time	Ongoing	Notes
Design, build and release subsequent groups of compliance reports for departments and CalHR	July 2015 - December 2015	Once the reports are implemented, they will be run on an ongoing basis.	
Test, implement and provide ongoing support for DAAs and Cal Expo monthly file submissions.	July 2015 - September 2015	Ongoing monthly support will be needed.	
Support CSU as they onboard to the ACAS and provide ongoing support after "go live"	July 2015 - August 2015	Ongoing Support.	
<i>Design, develop, test and implement:</i>			
Monthly and annual "Safe Harbor" report	July 2015 - December 2015	Once the reports are implemented, they will be run on an ongoing basis.	
Annual Employee Statement, IRS report and monthly IRS correction file and reporting process.	July 2015 - March 2016 April 2016 - December 2016	Once the annual employee statement, IRS report and monthly IRS correction file are implemented they will be run on an ongoing basis.	Phase 1: Generate the initial annual report and employee statement and begin the monthly correction file reporting process. Phase 2: Design a way to organize, store, and retrieve the monthly correction files which are anticipated to be generated routinely due to the multitude of retroactive transactions that the state processes on a monthly basis.
On-demand mass update process for the ACAS	April 2016 - March 2017		
SWIRS/MIRS reporting files to allow for enhanced ad hoc reporting; provide necessary training and tools to MIRS users.	April 2016 - June 2017		
Add health benefits for Conservation Corps members from the California Conservation Corps (CCC) to the Box 12 on the W2.	July 2015 - December 2015		This is necessary because the reportable health benefits data for the Corps members is maintained by CCC and is not in the USPS.
Conduct testing of the electronic reporting/file submission and error correction process with the IRS and implement this process upon successful completion of testing.	August 2015 - November 2015		
Begin analysis on the impact of the Cadillac tax in conjunction with CalHR and CalPERS.	July 2016 - June 2017		
<i>Work with CalHR to implement:</i>			
Processes to calculate the 40 percent excise tax on the cost of employee's health coverage, and report the taxable excess benefit to the State's health plans and the IRS	July 2016 - December 2017		
Continue to implement change management and communication plan to ensure that all impacted stakeholders remain informed and engaged.	July 2015 - Ongoing	Additional job aids, tools and/or training may be required.	

ACA and PEPPRA Legislation Workload

Personnel and Payroll Services Division (PPSD) Workload Description	2016-17 and 2017-18			
	New Annual Increased Workload/ Task	Annual Hours per Task	Total Increased Hours	Number of Positions
Classification: Senior Information Systems Analyst (Specialist) Major responsibility: Provides high-level support of the ACA. This includes electronic data processing systems and projects, including the responsibilities for the program changes needed to integrate existing data reporting functions. The incumbent requires a thorough understanding and knowledge of the division's automated data processing environment, business processes and data elements, various technical methods, vast experience in computer applications and substantial experience of VisionBuilder (formerly known as MARK IV), a fourth generation data processing language. >Analyze, design, document and build business and technical requirements for the monthly and annual safe harbor report based on Federal ACA Regulations through the use of various technical methods such as utilities and software routines. >Analyze, design, document and build business and technical requirements to receive health benefit information from outside entities for annual reporting to the IRS for compliance with the Federal ACA Regulations. >Analyze, design, document and build business and technical requirements for the development and delivery of the annual employees statement required by the Federal ACA Regulations. >Analyze, design, document and build business and technical requirements for monthly and annual IRS file submission to meet the reporting requirement as outlined in the Federal ACA Regulations. >Liaison for external interfaces from SCO mainframe systems. Develop customer/client instruction packages for PPCD system files, prepares test files, develop implementation schedules, coordinate with external interface clients and assist customers with implementation of FTP. >To ensure ACA compliance in system program development, deployment and maintenance design, write and execute Mark IV program codes to produce the most complex statistical reports and/or processes for Automated/manual, on demand, and AdHoc reporting. >Develop testing plans, coordinate the implementation of ACA program jobs with ISD production operations staff and provide ongoing program maintenance support due to changes in ACA and requirements and/or business needs. Workload assumption: The ACA implementation and reporting is mandatory; therefore, system changes and new reports are necessary for implementation in order for the State to be in compliance with the federal ACA regulations.	30	8	240	0.1
	30	8	240	0.1
	30	8	240	0.1
	30	8	240	0.1
	25	4	100	0.1
	30	10	300	0.2
	30	15	450	0.3
TOTAL Senior Information Systems Analyst (Specialist)	205	61	1,810	1.0
Classification: Associate Governmental Program Analyst - ACA Major responsibility: Implement and maintain the Affordable Healthcare Act (ACA). >Continually assess system changes and solutions to enable SCO to successfully adhere to the ACA reporting requirements. This includes programming changes to the ACAS as well as the MIRS (Management Information Retrieval System) and SWIRS (Statewide Information Retrieval System) reporting systems. >Develop business requirements; submit system service requests; develop test plans; perform user acceptance testing; develop implementation plans; develop procedures; update manuals; develop and update end user training materials; provide end user support and prepare communications to various stakeholder groups. >Develop, test and validate the requirements to meet the ACA reporting requirements as well as ongoing ad hoc reports for SCO; CalHR; CalPERS and miscellaneous requestors. This includes delivery of data to requesting entity. >Ongoing analysis of the ACA Federal Regulations to determine the technical and procedural impact to the ACAS as well as reporting requirements for civil service and CSU. >Ongoing analysis of the ACA Federal Regulations will be required as additional requirements are provided by the Federal Government. New requirements expected for release over the next few years include implementation of a Federal Excise Tax on high cost health plans and an Automatic Health Benefit Enrollment Option. >Represent the SCO on focus groups, task forces, internal meetings. >Work directly with subject matter experts and control agencies to plan, organize, and develop an implementation work plan.	13	60	780	0.4
	35	20	700	0.4
	22	10	220	0.1
	7	300	2,100	1.2
	12	100	1,200	0.7
	45	3	135	0.1
	13	15	195	0.1
Workload assumption: The ACA reporting is mandatory therefore system changes and new reports are necessary for implementation in order for the State to be in compliance with the ACA Federal regulation				
SUBTOTAL Associate Governmental Program Analyst	147	508	5,330	3.0
Classification: Associate Governmental Program Analyst - PEPPRA Major responsibility: Implement and maintain the Public Employees Pension Reform Act (PEPPRA) which includes maintaining data for MyCalPERS members reciprocal agreement.				

ACA and PEPRA Legislation Workload

Personnel and Payroll Services Division (PPSD) Workload Description	2016-17 and 2017-18			
	New Annual Increased Workload/ Task	Annual Hours per Task	Total Increased Hours	Number of Positions
>Assess system changes and solutions to enable SCO to successfully implement the PEPRA regulations. This includes programming changes to the USPS and MIRS (Management Information Retrieval System) and SWIRS (Statewide Information Retrieval System) reporting systems.	39	6	234	0.1
>Develop user requirements; submit system service request; develop test plan; perform user acceptance testing; develop implementation plan; develop procedures; update manuals; develop end user training materials and provide end user support; prepare communications to departments.	39	20	780	0.4
>Develop the required reports to meet the PEPRA reporting requirements as well as ongoing ad hoc reports for SCO; CalHR; CalPERS and miscellaneous requestors. This includes developing report requirements; testing and validation; and delivery of data.	48	15	720	0.4
>Ongoing analysis of the PEPRA regulations to determine impact to the SCO USPS both technically and procedurally. This includes both civil service and CSU employees.	2	400	800	0.5
>Ongoing analysis of the PEPRA Regulations will be required as additional requirements are provided by the CalPERS after completion of their analysis. This includes tracking of legislative bills that will impact specific employees in the classic and new hire categories.	30	16	480	0.3
>Represent the SCO on focus groups, task forces, internal meetings.	40	3	120	0.1
>Due to PEPRA reform, MyCalPERS requires new reciprocity data to accurately process membership enrollment. The SCO is the official holder of employment history records and is considered the "employer" with MyCalPERS. As a result, SCO has to maintain this information and enter it into the MyCalPERS system for civil service and CSU.	12	20	240	0.1
>Work directly with subject matter experts and control agencies to plan, organize, and develop an implementation work plan.	12	15	180	0.1
Workload assumption: The PEPRA implementation and reporting is mandatory; therefore, system changes and new reports are necessary for implementation in order for the State to be in compliance with the PEPRA regulations.				
SUBTOTAL Associate Governmental Program Analyst	222	495	3,554	2.0
Classification: Associate Governmental Program Analyst - Tax Support				
Major responsibility: Analytical support activities associated with the statewide implementation of W2 reporting requirements specific to the Affordable Healthcare Act (ACA). Assignments include both short-range and long-range responsibilities generally falling into the areas of impact analysis, business process analysis, assessments of user needs, report generation, consultation, federal regulation analysis, problem resolution and creation of new capabilities.				
>Assess system changes and solutions to enable SCO to successfully adhere to the ACA reporting requirements. This includes revising and testing the W2 process to include benefit premium amounts and the printing of ACA Employee Statements and determining changes necessary for the Cadillac tax.	2	600	1,200	0.7
>Ongoing analysis of the ACA Federal Regulations will be required as additional requirements are provided by the Federal Government. New requirements expected for release over the next few years include implementation of a Federal Excise Tax on high cost health plans and an Automatic Health Benefit Enrollment Option.	6	100	600	0.3
Workload assumption: The ACA reporting is mandatory therefore system changes and new reports are necessary for implementation in order for the State to be in compliance with the ACA Federal regulation.				
SUBTOTAL Associate Governmental Program Analyst	8	700	1,800	1.0
TOTAL Associate Governmental Program Analyst	377	1,703	10,684	6.0
TOTAL PP&D REQUESTED	582	1,764	12,464	7.0

STATE CONTROLLER'S OFFICE
ACA and PEPRA Legislation Workload

Attachment II
Page 3 of 4

Information Systems Division (ISD) Workload Description	2016-17 and 2017-18			
	New Annual Increased Workload/ Task	Annual Hours per Task	Total Increased Hours	Number of Positions
Classification: Senior Programmer Analyst (Specialist)				
Major responsibility: Leading system development lifecycle activities including technical specifications, design, coding, and testing to implement mandated State (California Public Employees' Pension Reform Act) and Federal (Patient Protection and Affordable Care Act) legislation.				
>Act as project and/or technical lead within a multi-disciplined project team or work as technical specialist independently to plan, prepare, coordinate and execute the most complex technical activities and programming tasks for mandated California Public Employees' Pension Reform Act (PEPRA) and Patient Protection and Affordable Care Act (ACA) legislation.	8	40	320	0.2
>Lead impact assessments (evaluate, provide alternatives, make recommendations, and estimate effort) on PEPRA and ACA business requirements.	8	20	160	0.1
>Design, develop and implement the most complex program changes to support PEPRA and ACA business rules incorporating SCO programming and application development standards.	6	100	600	0.3
>Perform quality reviews and inspections at critical stages in the system development lifecycle.	16	20	320	0.2
>Provide technical training, knowledge transfer and mentoring to co-workers.	6	8	48	-
>Communicate effectively and develop productive relationships with co-workers, management, and internal and external business partners to foster teamwork and to ensure that work progresses.	68	2	102	0.1
>Prepare reports and presentations for executive management.	68	2	102	0.1
>Track and monitor system performance issues and assist DBA in identifying and resolving issues.	4	16	64	-
>Keep aware and current in industry best practices, processes, and tools.	6	5	30	-
>Participate in disaster recovery and business continuity activities.	3	10	30	-
Workload assumption: There is a need to bring SCO's existing HRM systems up to date to administer the mandated State California Public Employees' Pension Reform Act (PEPRA) and Federal Patient Protection and Affordable Care Act (ACA) legislation which results in an increase to the current ISD workload. In addition, the workload associated with these pieces of complex legislation is anticipated to continue indefinitely.				
TOTAL Senior Programmer Analyst (Specialist)	193	222	1,776	1.0
TOTAL ISD REQUEST	193	222	1,776	1.0

ACA and PEPR Legislation Workload

ADMINISTRATIVE SUPPORT WORKLOAD

CLASSIFICATION / TASK		2016-17 and 2017-18		
		Workload		
		Months	Hours per Month	Hours per Year
Associate Governmental Program Analyst	0.4			
General Administrative Support		12	12	144
Conduct and/or review analytical studies and surveys; formulate procedures, policies, and program alternatives; make recommendations on a broad spectrum of administrative and program-related problems; and review and analyze proposed legislation.				
Human Resources Services Support		12	12	144
Prepares formal memoranda or reports on personnel matters; reviews proposed personnel actions for conformity with regulations, classification or pay standards or good personnel practice. Prepares written examinations, and coordinates recruitment programs.				
Business Services Support		12	12	144
Supports day-to-day operations by acquiring and maintaining departmental facilities, manages and directs in-house and external employee training, administers publication of articles on the SCO intranet (COIN), manages forms, records, transportation and recycling programs and provides reproduction services.				
Accounting Support		12	12	144
Provides all accounting services pertaining to the SCO budget as to estimates of expenditures, reimbursements and revenues; payment of travel expenses claims and invoices, year-end accrual, billing of reimbursements to the agencies; advise management of forecasted expenditures relative to budgeted authority.				
IT Support		12	6	72
Provides analysis, development, installation, implementation, procurement, or support of information technology systems, multifunction automated office systems, microcomputer systems, and teleprocessing networks and/or systems.				
Program Correspondence and Customer Service		12	6	72
Responds to inquiries concerning policies and procedures and provide technical advice and assistance to staff, management, control agencies, and others.				
Total Estimated Hours				720